

SUBJECT: Cost Sharing in Grants and Cooperative Agreements

NEW MATERIAL: The purpose of this notice is to clarify USAID's policy regarding cost share under grants and cooperative agreements to non-governmental organizations, both non-profit and for profit, funded by USAID. This Notice supersedes Series 200, Interim Update #3, PVO Cost Sharing Policy.

EFFECTIVE DATE: 07/11/2002

POLICY

**USAID/General Notice
M/OP/POL
08/06/2002**

Subject: Cost Sharing in Grants and Cooperative Agreements

PURPOSE: The purpose of this notice is to clarify USAID's policy regarding cost share under grants and cooperative agreements to non-governmental organizations, both non-profit and for profit, funded by USAID.

BACKGROUND: The most recent policy governing Cost Sharing was issued in a general notice in May 1997. This notice, Series 200 Interim Update #3, PVO Cost Sharing Policy, made it clear that "USAID policy is that the principle of cost-sharing . . . should be flexible and case-specific." However, Agency policy continued to direct a SO team to use 25 percent as a suggested reference point. It also required the team to justify the cost share required based on a review of the factors outlined in the USAID-U.S. PVO Partnership Paper. This led many to continue to require a 25 percent cost share in cases where it was not appropriate.

This notice supersedes the notice of May 1997.

A. COST SHARE DETERMINATION

Although there is no general legislative requirement that recipients of grants or cooperative agreements must cost share, USAID policy is that cost sharing is an important element of the USAID-recipient relationship. When used, its application should be flexible, case-specific, and should be used to support or contribute to the achievement of results. Cost share should be based on whether it is appropriate for the recipient organization in the particular circumstances. There is no set formula for cost sharing. A determination whether cost share will be appropriate for an activity should be based on technical and or programmatic considerations. The policy does not contain

a suggested numeric reference point. Cost share should be based on the needs or purpose of the activity. Examples of when it might be appropriate follow:

- a. Where there is a programmatic rationale for cost share, such as helping to assure the recipient will build its organizational capacity for resource mobilization. For example, when building fundraising capability is an objective of a capacity building activity, it would be appropriate to require the grantee to meet certain targets as a condition of USAID funding;
- b. When it is critical that the activity continues after USAID assistance ends, cost share requirements can assure that the recipient establishes adequate alternate sources of funding; or
- c. When an award supports an activity initiated by the recipient, or is based on an unsolicited proposal. Since most funding is reserved for development priorities already established by USAID, only limited funding might be available for even the best of such applications. USAID may only be able to partially fund the activity.

In all of these cases, the SO Team should discuss the amount and terms of cost share with potential recipients prior to award.

The Activity Manager is responsible for determining the appropriate cost share for individual grants or cooperative agreements. This should be included in the Activity Manager's financial analysis of the program prior to issuance of a Request for Applications (RFA) or Annual Program Statement (APS). In the case of competitive awards, the Activity Manager is encouraged to communicate with a broad span of potential applicants regarding appropriate cost share prior to issuance of the RFA or APS. Even after an RFA or APS is issued, it may be appropriate to consider special circumstances and to change a cost share requirement. The Activity Manager may wish to discuss or negotiate cost share for non-competitive awards, including those based on unsolicited proposals, with the applicant.

The Activity Manager should not use a set formula in determining the level of cost share. He/she should take several considerations into account when making cost share decisions. For example, it might be difficult for a recipient to meet a cost share during an activity with a short timeframe. A specific program may require a level of risk that would discourage potential recipients from providing meaningful contributions. Competition may be limited to indigenous organizations with limited resources.

Consideration should also be given to the best uses of program income if the activity will generate income. In accordance with 22 CFR 226.24, with the approval of the Agreement Officer, program income may be used to finance the non-Federal cost share of the award. Or if program income would help achieve objectives such as sustainability or additional resources for the activity if it is added to the program instead of used for cost share, this may accomplish the same ends as cost share.

Cost share may be required regardless of the type of organization, whether non-profit - U.S. PVOs, international PVOs, local NGOs, universities, foundations, and others - or commercial organizations, including for-profit businesses. In the case of a non-U.S. recipient, it will be important to be flexible in establishing cost share requirements.

The Activity Manager must document the factors that he/she considered in determining the amount of cost share in a memorandum to the file.

B. INCLUDING COST SHARE IN SOLICITATIONS

If a determination is made to require cost share, the requirements must be stated in the RFA or APS. If, after an RFA or APS is issued, the Activity Manager decides that the amount of cost share required should be changed, this should be carried out by the Agreement Officer through the issuance of a formal modification to the solicitation document.

Applications that do not meet at least the minimum cost-share requirement are not eligible for award consideration. Cost effectiveness is a required evaluation criterion in all competitive awards (ADS 303.5.5b). Cost effectiveness includes cost-share, when required. If an applicant proposes a higher than minimum cost share, this may be considered within the "cost effectiveness" evaluation criterion. A separate/additional evaluation criteria category for cost share may not be created because cost-share is included within cost-effectiveness.

C. MEETING COST SHARE REQUIREMENTS

Cost share applies to the life of the agreement, and the cognizant technical officer (CTO) should monitor the recipient's financial reports to ensure that the recipient is making progress toward meeting the required cost share. If it appears that the recipient is not making adequate progress, the CTO must bring this to the attention of the Agreement Officer. The Agreement Officer is obliged to initiate discussions with the recipient to resolve the issue. The Agreement Officer has the authority to reduce the amount of USAID incremental funding in the following or funding period or to reduce the amount of the agreement by the difference between the expended amount and what the recipient agreed to provide. If the award has expired or terminated, the Agreement Officer may request the grantee to refund the difference to USAID.

In-kind contributions are allowable as cost share, in accordance with OMB Circular A-110 and 22 CFR 226.23. These include such things as volunteer time, valuation of donated supplies, equipment and other property, use of unrecovered direct costs, etc.

As part of his or her analysis of the applicant's proposed budget, the Agreement Officer must review the applicant's proposed cost share contributions (e.g. categories or items) for cost realism and to verify that they meet the standards set in 22 CFR 226.23 for U.S. organizations, or the Standard Provision entitled "Cost Sharing" for non-U.S.

organizations. USAID's policy is not to apply its source, origin, and nationality requirements or the restricted goods provision established in the Standard Provision entitled "USAID Eligibility Rules for Goods and Services" to cost share contributions. The Agreement Officer may authorize the recipient to attribute cost share contributions from subrecipients to the prime award.

Point of Contact: Any questions concerning this Notice may be directed to Allen Eisenberg, M/OP/POL, (202)712-1467.

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